

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

USIA-06 PRS-01 SP-02 EB-07 COME-00 TRSE-00 OMB-01

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FM AMEMBASSY DACCA

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EO 11652: N/A

TAGS: EAGR, EFIN, EAID, BG

SUBJ: RATION PRICES RAISED MODESTLY

REF: DACCA 6168

1. AIR VICE MARSHAL AND DCMLA M.G. TAWAB ANNOUNCED AT HIS FIRST PRESS CONFERENCE DECEMBER 18 THE FOLLOWING PRICE INCREASES EFFECTIVE DECEMBER 20 FOR WHEAT AND RICE SOLD THROUGH THE RATION SYSTEM:

TAKA PRICE PER MAUND (82.28 LBS)

OLD NEW PERCENT INCREASE

RICE 60 70 17

WHEAT 50 55 10

THE NEW PRICES AMOUNT TO \$128 PER METRIC TON FOR RICE AND \$101 FOR WHEAT. TAWAB EXPLAINED THAT THE WHEAT AND RICE PRICES HAD BEEN RAISED BECAUSE OF :(A) THE INCREASED COST OF IMPORTED RICE AND WHEAT FOLLOWING DEVALUATION, (B) THE COMMITMENT TO THE IMF QTE OF PREVIOUS GOVERNMENTS UNQTE, AND (C) THE GOVERNMENT DECIDED TO QTE REDUCE THE RATE OF SUBSIDY AND AND DIVERT THE AMOUNT TO DEVELOPMENT WORKS UNQTE.

2. TAWAB, WHO HOLDS THE FOOD PORTFOLIO, EXPLAINED THAT THE COST OF IMPORTED RICE HAD RISEN FROM 150 TO 200 TAKA PER MAUND (\$370 PER METRIC TON) FOLLOWING DEVALUATION. THUS THE PREVAILING PRICE HAD INVOLVED A SUBSIDY OF 140 TAKA PER MAUND. IN DOLLAR TERMS,

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SUBSIDY IS STILL 65 PERCENT OF CIF PRICE. HE SAID THE TOTAL SUBSIDY

COST TO THE GOVERNMENT FOR BOTH WHEAT AND RICE WOULD AMOUNT TO TAKA 150 CRORE (ABOUT \$100 MILLION) DURING THE FISCAL YEAR.

3. TAWAB ALSO RECALLED THAT THE BDG IN JUNE HAD COMMITTED ITSELF TO THE IMF TO INCREASING THE PRICE OF RATIONED RICE TO 100 AND WHEAT TO TAKA 90 PEPAMAUND. IN SEPTEMBER, HE SAID, THE GOVERNMENT DECIDED TO RAISE THE PRICE OF RATIONED RICE TO TAKA 90. THE PRESENT GOVERNMENT

HAD NOMINALLY RAISED THESE PRICES TO KEEP THE COMMITMENTS PREVIOUSLY MADE. HE SAID THE GOVERNMENT WOULD REVIEW THESE PRICES LATER ON, QTE IF NECESSARY UNQTE.

4. PROCUREMENT. TAWAB STATED THE GOVERNMENT WOULD BUY AS MUCH RICE AND PADDY AS IT COULD FROM THE FARMERS. HE ALSO SAID THE GOVERN-

MENT HAD TAKEN QTE POSITIVE MEASURES UNQTE TO STOP SMUGGLING OF FOOD AND THAT THE BORDER IS QTE PRACTICALLY SEALED UNQTE.

5. COMMENT. THIS PRICE INCREASE OF LESS THAN ONE CENT PER POUND TO ABOUT SIX CENTS PER POUND FOR RICE AND HALF A CENT PER POUND TO ABOUT 4.6 CENTS PER POUND FOR WHEAT WILL REDUCE THE SUBSIDY BURDEN TO THE GOVERNMENT BY ABOUT TEN PERCENT PER MONTH, ACCORDING TO A WORLD BANK ECONOMIST HERE. AS THIS MEASURE COMES HALF WAY THROUGH THIS FISCAL YEAR, THE SUBSIDY IS REDUCED BY ABOUT FIVE PERCENT FOR THE YEAR AS A WHOLE. ALTHOUGH THESE PRICE RISES DO, IN FACT, MEET THE LETTER OF THE BDG COMMITMENT TO THE IMF, THEY ARE VERY MODEST RISES INDEED. AS THE NUMBERS QUOTED BY TAWAB (PARA 3 ABOVE) SUGGEST, IMF HAS RECOMMENDED A LARGER SUBSIDY REDUCTION THAN THAT NOW REPEAT NOW ANNOUNCED. MAJOR PURPOSE OF STABILIZATION PROGRAM WAS TO RAISE ADDITIONAL RESOURCES FOR BDG TO FINANCE DEVELOPMENT PROGRAMS OR TO SHIFT RESOURCES (AND SUBSIDY BURDEN) FROM CONSUMPTION TO PRODUCTION AND DEVELOPMENT. THIS GOAL IS, OF COURSE, LESS WELL MET BY LOWER RATION PRICE INCREASES. SUCH PRICE RISES ALSO WILL NOT SIGNIFICANTLY CONTRIBUTE TO PROVIDING AN INCENTIVE PRICE TO BANGLADESH FARMERS. HENCE, THIS STEP WILL NEITHER MOBILIZE RESOURCES FOR DEVELOPMENT NOR SIGNIFICANTLY ENCOURAGE GREATER FOOD PRODUCTION IN BANGLADESH. WHILE TAWAB MADE IT CLEAR THAT MATTER IS TO BE KEPT UNDER REVIEW, WE EXPECT THAT UNLESS FURTHER SUBSTANTIAL INCREASES ARE ANNOUNCED BEFORE MAY, 1976, BANGLADESH AID GROUP MEETING, THIS ISSUE WILL THIS ISSUE WILL BE SUBJECT FOR DISCUSSION AT THAT TIME.

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6. WHILE PRICE INCREASE IN BASIC FOODS REPRESENTS A REAL HARDSHIP FOR POORER URBAN CONSUMERS, THIS MAY BE OFFSET FOR MANY BY BDG SALARY INCREASES WHICH WE UNDERSTAND ARE UNDER CONSIDERATION.

7. AIRGRAM FOLLOWS ON MAGNITUDE OF FOOD SUBSIDY BURDEN. CHESLAW

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